

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BAC3654 – PROFESSIONAL ETHICS
(All sections / Groups)

3 MARCH 2020

9.00a.m – 12.00 p.m

(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 5 pages with 4 Questions only not inclusive the cover page.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

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QUESTION 1

Quality products were the hallmark of Sil company, ensuring immense confidence of the customers. Albert, an employee of the company during his duty hours, happened to pass through an area where some inferior quality meat was mixed with high-quality meat. This meat was to be used in the production of company products. He suspected it to be an act of a few in the service line and decided to inform the supervisor and the factory manager. Much to his surprise, it turned out to be a managerial decision, to keep the profits from dwindling further and meeting the costs of the company products. Albert later found out that all stages of the production process, from purchasing to final quality control, were adapted in order to make the use of the inferior meat possible.

Albert was informed that the meat was fit for human consumption, and using this meat involved no breaking of laws and regulations. But the factory manager warned that if this news reached the customers, then it will shatter the confidence of the public, and profits will dwindle. This will, in turn, force the company to lay off people, including Albert himself. Albert was ordered to keep his eyes and mouth shut on the matter and focuses on his job in the company. Later, it came to the knowledge of Albert that the board of directors of the company was also on board on this matter. The matter was swept under the carpet through fake quality reports. This infuriated Albert, who contemplated going to the local newspaper on this matter. He wanted to inform the people about what he had witnessed with his own eyes and to reveal to the general public how customers were being robbed by the company by providing them inferior products devoid of any quality.

Mally, a senior director from Sil's head office, visit the company's production process. Mally was informed that unlike some other employers in the industry, Sil didn't employ child labour. The human resource manager explained that although it was allowed by law in the country, it was forbidden by Sil's code of ethics. The manager also explained that in his view, employing child labour was always ethically wrong. Mally asked whether the money that children earned by working in the relatively safe conditions at Sil was an important source of income for their families. The manager said that the money was important to them but even so, it was still wrong to employ children, as it was exploitative and interfered with their education.

Required:

- a) Explain how Albert might act, in each case, if he were to adopt either conventional or post-conventional ethical assumptions according to Kohlberg's theory. Your answer should include an explanation of these two terms.

(9 marks)

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- b) Assess on human resources manager belief that employing child labour is 'ethically wrong' from ethical perspective of deontological and consequentialist. (8 marks)
- c) Describe the signs of ethical collapse in the organization. (8 marks)

(TOTAL: 25 marks)

QUESTION 2

- a) Determine the standard expected for professional accountant behaviour. (6 marks)
- b) Describe the purposes and typical contents of a corporate code of ethics. (9 marks)
- c) The finance director of Mimi Co. has requested senior auditor, Sally Ng, to be assigned in the audit team. This senior auditor previously is not as an audit team for Mimi Co. Further investigation found that Sally Ng is the sister of Mimi Co. financial controller. Justify if Sally should be assigned in the audit team of Mimi Co. and explain the threat could be arising from this appointment. (10 marks)

(TOTAL: 25 marks)

QUESTION 3:

"In the past, independent directors could evade responsibility for the company's misconduct by feigning ignorance as they were non-executives," says an independent director who declined to be named.

That changed when the RM530 million Transmile accounting scandal led to a RM300,000 fine and one-year imprisonment of former independent directors Jimmy Chin Keem Feung and Shukri Sheikh Abdul Tawab for authorising the release of a misleading statement to Bursa Malaysia in relation to the company's unaudited revenue figures for the fourth quarter and full year of 2006.

In another development, former deputy prime minister Tun Musa Hitam, the then independent non-executive chairman of Sime Darby Bhd, came in for a lot of flak from investors for the board's failure to prevent a huge loss of RM964 million from delays and cost overruns in several projects involving the group's utilities and energy division in 2010. Sitting with him on the 15-member board were eight other independent directors. More recently, the independent directors of Genting Malaysia Bhd (GenM) found themselves the subject of unwanted attention after it was learnt that they had given the gaming company the green light to acquire a US-based casino operator that was not only loss-making but

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also considering filing for Chapter 11 bankruptcy protection. The deal involved the US\$128 million purchase of a 35% stake in Empire Resorts Inc by GenM from Kien Huat Realty III Ltd.

There was also the issue of the deal being a related-party transaction (RPT) between the group and Kien Huat Realty III, which is an investment vehicle controlled by GenM chairman and chief executive Tan Sri Lim Kok Thay.

While the seven independent directors continue to sit on GenM's nine-member board, investors have not been forgiving. The stock is down 17% from its peak of RM3.80 registered on July 26. It lost about RM3.9 billion in market value during the period. Minority Shareholders Watch Group (MSWG) CEO Devanesan Evanson says there have been instances where independent directors have fallen short of expectations and that such behaviour has often been to the detriment of the minority shareholders.

"The irony is that the major shareholders get to elect the independent directors. One then wonders how independent these major shareholder-elected independent directors can really be," he says in an email interview with The Edge. He stresses the need for a "better mousetrap" when it comes to the election of independent directors where the risk of them being patronising to the major shareholders can be mitigated.

"The definition of independent directors in the listing requirements of Bursa Malaysia is easy to satisfy. The first part is the subjective test of being 'independent of management and free from any business or other relationship which could interfere with the exercise of independent judgment or the ability to act in the best interests of or a listed issuer'. This is basically a self-assessment where you swear hand on heart that you satisfy the requirements for independence as stipulated in the definition. "There is a second objective test that must also be satisfied and this comprises seven instances where one cannot be an independent director," he says.

Not a numbers game, says MSWG

Under Bursa's listing requirements, at least two or a third of boardroom positions at listed companies, whichever is higher, must be held by independent directors. The Malaysian Code on Corporate Governance (MCCG) recommends that at least half of the board should comprise independent directors and for large companies, the majority.

According to the Securities Commission Malaysia's (SC) Corporate Governance Monitor 2019, there were 5,231 individual directors holding 6,497 board positions as at Dec 31, 2018. Of these board positions, almost half or 3,244 comprised independent directors. However, Devanesan says the number is not the issue. "It is not a numbers game but one of getting people of integrity and quality with the right state of mind. It is about getting people with the right moral fibre ... independence nurtured against a backdrop of capital market cultural integrity — the tone at the top coupled with political will. It is about

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thinking 'substance over form'. An act of the board may not breach the listing requirements but still, is it the right thing to do ethically and morally? "For example, some public limited companies (PLCs) have become creative in pricing their transactions in such a way that they fly under the radar of Bursa's listing requirements. So, the need to call for an extraordinary general meeting to approve the transaction is avoided.

He also notes that although the Companies Act 2016 has provisions that allow minority shareholders to bring such action for oppression of minority rights (Section 236), most minority shareholders do not have the financial muscle to carry out such a course of action. "This is somewhat a vestigial section. Perhaps, what is needed is for regulators to fund minority shareholders to take action before the courts on the behaviours of independent directors — and if the minority shareholders win the case, surely that would motivate independent directors to behave more like 'reasonable' independent directors," says Devanesan.

But while independent directors who fail to flag suspicious deals or stop them from taking place get more media attention than others, this does not necessarily mean Malaysia lacks exemplary directors and company leaders. The SC says it has observed good examples of independent directors who do their duties, such as commissioning independent audits, initiating site visits and sounding the alert on potential breaches. "The SC has taken, and will continue to take, enforcement action against directors for breaches of securities law based on evidence available. Common offences involving directors include insider trading, breach of accounting standards, falsification of records and submission of false or misleading information to the SC," the regulator tells The Edge.

An independent director, who currently serves on the boards of two companies, says those in her position can act as management's sounding board. "On a good board, each independent director will have his own area of expertise, such as legal, accounting and investment. Thus, when an acquisition, a disposal or a transaction is up for review, the independent directors will be able to use their expertise to scrutinise every angle of the proposal. The discussion must also be robust."

Source: The Edge Weekly, November 2019

Required:

- a) Based on the above article, describe what are the challenges for effective corporate governance? (9 marks)
- b) Recommend the appropriate remedial based on the principles of corporate governance covered in the Malaysian Code on Corporate Governance (MCCG). Your recommendation should come from the following perspectives:
 - i. Board of Directors' composition. (8 marks)
 - ii. Board of Directors' remuneration. (8 marks)

(TOTAL: 25 Marks)

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QUESTION 4

- a) Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances and relationships. The nature and significance of the threats may differ depending on whether they arise in relation to the provision of services to an audit client and whether the audit client is a public interest entity, to an assurance client that is not an audit client, or to a non-assurance client. Determine **FIVE (5)** categories of professional accountant threat categories. For each category, provide appropriate examples. (15 marks)
- b) Briefly recommend the potential safeguards to the above mentioned professional treats. (10 marks)

(TOTAL: 25 Marks)

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